

VZCZCXRO9078
RR RUEHFK RUEHKSO RUEHNAG RUEHNH
DE RUEHKO #2219/01 2252347
ZNR UUUUU ZZH
R 122347Z AUG 08
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 6539
INFO RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEHOK/AMCONSUL OSAKA KOBE 3105
RUEHFK/AMCONSUL FUKUOKA 9361
RUEHNAG/AMCONSUL NAGOYA 7533
RUEHKSO/AMCONSUL SAPPORO 9942
RUEHNH/AMCONSUL NAHA 1729
RUEHCP/AMEMBASSY COPENHAGEN 0542
RUEHGV/USMISSION GENEVA 3388
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 02 TOKYO 002219

SENSITIVE
SIPDIS

DEPARTMENT PASS USTR FOR CUTLER AND BEEMAN
USDOC FOR 4410/ITA/MAC/OJ
GENEVA FOR USTR

E.O. 12598: N/A

TAGS: [ENRG](#) [ECON](#) [SENV](#) [JA](#)

SUBJECT: OVER-REGULATION TAKES AIR OUT OF WIND ENERGY MARKET

Sensitive But Unclassified. Not for the Internet

¶1. (SBU) SUMMARY: A poorly-targeted subsidy and overlapping regulatory authority between the Ministry of Land, Infrastructure and Transport (MLIT) and the Ministry of Economy, Trade and Industry (METI) hamper Japan's wind energy market, according to industry sources. As the cost and approval-time burden on industry increases, Japan will face difficulty meeting its long-term target for wind energy. GE is seeking to have the standards issue raised in this year's regulatory reform talks. END SUMMARY.

¶2. (SBU) General Electric (GE) Vice President for Government Relations Vivian Tokai described three obstacles confronting the firm's operations in Japan in a meeting August 7. First, a GOJ subsidy for wind projects targets environmental specifications that are not cost-effective. METI's Agency for Natural Resources & Energy and the New Energy & Industrial Technology Development Organization (NEDO) cover one-third (for commercial projects) to one-half (for non-commercial projects) of the installation costs on wind turbines. Eighty percent of this subsidy is available automatically, with an additional ten percent available for turbines that are lightning-proof and another ten percent available for turbines that are wind-pressure proof (for instance, able to withstand typhoons).

¶3. (SBU) GE's turbines do not meet the wind-pressure specification, so it receives, at most, 90% of the available subsidy. Vestas of Denmark, with the largest share of the Japanese market (23% compared to GE's 21%), modified its design to meet the wind-pressure specifications, but GE, which sells at most 200 turbines/year in Japan, has not found it cost effective to do so.

¶4. (SBU) GE is currently the only U.S. manufacturer in the Japanese market. It first approached the Embassy on the subsidies issue in ¶2006. Since then, however, the subsidy has not been a priority for GE because its product is price competitive. However, GE's representatives note the rationale for the subsidy is unclear. Japan's major turbine manufacturers (Mitsubishi Heavy Industries, Subaru, Japan Steel Works) are now manufacturing exclusively for the export market, so they are not gaining market advantage. Instead, the subsidy seems to incentivize an unnecessary standard, as the basis for the additional wind-proofing requirement is not well-developed.

¶5. (SBU) Two larger issues face GE and the Japanese wind energy market as a whole which relate to building standards for wind projects. First, following a June 2007 revision of Japan's Building

Standards Law, MLIT began applying a strict interpretation of a requirement for building materials for the tower structures that support the turbines to meet Japanese Industrial Standards (JIS). Prior to this, MLIT-designated organizations could approve foreign materials as JIS-equivalent, but now the material suppliers must conform to JIS or receive special approval from the MLIT Minister. According to GE, this can add as much as ten months to the approval process.

¶6. (SBU) GE has also approached FCS on this issue, and the Minister-Counselor for Commercial Affairs contacted the Director of MLIT's Building Guidance Division in March 2008 to encourage approval of JIS-equivalent standards and request information on possible reasons why MLIT-designated quality assessment organizations would not approve widely-used standards that are equivalent to JIS. FCS brokered a meeting between GE and MLIT on April 4. FCS understands some domestic wind-power developers have since applied and been granted MLIT approval to construct wind turbine structures using non-JIS materials. GE will supply the turbines for these projects. MLIT has since held two workshops for industry to explain the new procedures. GE sources turbines for the Japanese market from their German subsidiary (formerly Tacke).

¶7. (SBU) GE's more serious concern is the fact that regulation of wind power plants fall under two ministries, MLIT and METI. On July 30, the Electricity Safety Division of METI's Nuclear Safety Agency (which also regulates wind power producers under Japan's Electric Enterprise Law) issued a report citing new NEDO Guidelines for Wind Power Generation. Specifically, the guidelines call for establishment of a method to assess risk based on geographic considerations, wind turbulence and protection against lightening

TOKYO 00002219 002 OF 002

strikes. GE is concerned a potential change in regulations based on these guidelines could affect existing contracts in production. The chief concern is that Japan is the only economy which regulates wind turbines as both a power plant (the turbine, which is covered under METI regulations) and a construction project (the tower, regulated by MLIT.) Meanwhile, no single agency is charged with assessing the safety of the wind power plant structure as a whole.

¶8. (SBU) In GE's assessment, these issues are not traditional market access or national preference issues as much as regulations that add to the cost of doing business in Japan. GE also notes that these issues will hinder Japan's ability to meet its targets for wind power. The GOJ has resolved to raise its capacity for wind power generation from 930 MW in 2005 to 4.1 GW by 2020 and 5.5 GW by ¶2030. The subsidy and regulatory issues, therefore, seem inconsistent with GOJ efforts to increase production of renewable energy. GE has asked that the standards issue be raised in the regulatory reform talks.

SCHIEFFER